Finance Circular Number: 02/2024

2025 BUDGET STRATEGY and OPERATIONAL RULES

Date: 6th September 2024

To: **National Parliament**
Ministers
Permanent Secretaries and equivalents

CC: All Financial Controllers/Chief Accountants
All Line Ministry Planning/Project Officers
All Human Resource Managers
All Heads of Departments (HOD)

KEY POINTS

1. The theme for the 2025 Budget is: "***Accelerating Accountable and Transformative Investments: A Pathway towards a Resilient and Sustainable Economy"*** The theme calls for collective efforts to bring innovative changes to increase productivity, improve access and connectivity, improve quality and delivery of services and build resilience against macro-economic shocks, natural disasters and to adopt sustainable strategies.

2. The 2025 Budget is a deficit budget, therefore, the government has to seek external support from other sources to accommodate the deficit, including additional revenue measures to cater for the recurrent shortfall. The current Government is commited to ensuring all mandatory cost and ongoing SIG contracts and obligations are fully funded in the 2025 Budget and to maintain key and essential service delivery

3. All implementing Ministries are required to properly plan and cost out activities according to their annual workplan for 2025 and be able to link these planned activities to their respective Budget allocations. The deliverables or intended outputs of these activities will need to be clearly articulated as well so that the 2025 Budget implementation is aligned to the budget principles stipulated in this framework.

4. The Government will continue to prioritise resources towards service delivery grants, drugs and dressings, basic infrastructure, contractual commitments, office and staff rent, utilities for all Ministries, subscriptions and fees and development partners financing agreements and commitments.

5. Under the PFM Act 2013, section 46 (1) "**Before the start of each financial year, every accountable and accounting officer shall prepare for the secretary budget estimates of the resources required by the Government** (including for any special funds) and estimates of revenue received by the ministry, for (a) the Financial Year and (b) up to the three following financial years and section 46 (2) the accountable officer shall provide the budget estimates according to the prescribed procedures and timeframes, in the prescribed manner and including the prescribed information".

6. This Financial Circular, and the directions of the Budget Coordination Committee, are to be strictly adhered to. Any deviation will be brought to the attention of the Cabinet and may impact on the recommendations for Ministry budget submissions to Cabinet as well as performance assessments of Permanent Secretaries.

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1. MINISTERS FORWARD

I am pleased to present to the National Parliament the 2025 Budget Strategy and Operational Rules, in accordance with section 45 (1) a of the *Public Financial Management Act 2013*.

This document is the Government's Framework for the 2025 Budget. All Ministries are expected to read and adhere to the framework and guiding rules set forth in this Strategy**.** It outlines the macro economic and fiscal context that guides the preparation of the 2025 National Budget. It provides all required information including operational rules necessary for Ministries and Ministers to prepare and submit their 2025 Budgets.

The Budget Strategy forms the basis for the 2025 Budget proper and will be the foundation for the 2025 Financial Policy and Objectives, Budget paper Volume 1 in accordance with section 47 (a) of the PMF Act 2013.

The economy is expected to remain stable as real GDP growth is projected at 3.4 percent in 2025, expected to be driven by contributions from several major sectors which include fishing, Agriculture, mining and industry sector.

As the economy is still recovering, the Government for National Unity and Transformation (GNUT) calls for togetherness, to invest in transformative projects and adopting sustainable strategies. The GNUT government is also taking full responsibility to ensure that the 2025 Budget continues to adhere strictly to much needed fiscal discipline to restoring its fiscal position by building back its monetary buffers, reduce the budget deficit and improve its cash flow management

The 2025 Budget is committed to maintain all legitimate contractual obligations that are ongoing including essential services and fixed costs. These comitments must be adequately funded to ensure they are delivered successfully and for the benefit of the people of Solomon Islands. This Government is committed to strategically allocate the budget to Ministries to deliver on their mandated functions successfully and therefore will allocate the budget in the most effective manner so that the budget is implemented efficiently and effectively and within the fiscal capacity the Government can secure for 2025.

This will only be possible if Ministers and Permanent Secretaries work closely together in the formulation of the 2025 Budget to ensure that key priorities are allocated well within secured resources and being delivered. I expect all Permanent Secretaries to organize internal Budget consultations through the Ministry Budget Committees, to ensure their Budget priorities for 2025 are to fully fund all SIG ongoing contractual commitments,fixed costs and invest in transformative projects

The Budget Coordinating Committee, including senior budget and planning officials from Ministry of Finance and Treasury, Ministry of National Planning and Devlopment Coordination, Ministry of Public service and the Policy Unit, Prime Minister's office, has the mandate from the Government to ensure that the 2025 budget is focused on the guiding principles set forth in this Strategy and the overall fiscal framework set for 2025.

I thank all Ministers and Permanent Secretaries in advance for their commitment to delivering to our people the 2025 Budget. Let us all work responsibly and cohesively together in preparation for 2025, with the overarching theme **“Accelerating Accountable and Transformative Investments: A Pathway Towards a Resilient and Sustainable Economy”.**

Hon. Manasseh D. Sogavare, MP
Minister of Finance and Treasury

2. INTRODUCTION

This Financial Circular is mandatory under section 45 (1) (a) (b) of the *Public Financial Management Act 2013. In summary, this section explained that prior to tabling the National Budget in Parliament, Minister of Finance with the approval of Cabinet shall provide the prescribed information outlining the Government's Budget Strategy at least five months before start of financial year and such information relating to its fiscal and debt management strategies three months before start of financial year*

It provides the strategic and fiscal framework for the 2025 Budget, the guidelines and instructions to be followed and strictly adhered to when Ministries prepare their budgets and provides the basic requirements that have to be met in order for any Ministry submission to be fairly assessed by the Budget Coordinating Committee, Budget Strategic Committee, the Cabinet and Parliament.

This Strategy sets forth the overall macroeconomic trends that framed the 2025 Revenue estimates which then determine the top-down expenditure ceilings that the Government can reliably secure to implement the key priorities for 2025.

As the first Budget to be put forward by the newly elected Government for National Unity and Transformation (GNUT), the government strives to invest in key economic infrastructures to diversify the economy, and adopting sustainable strategies. This calls for working together across the whole of government ministries to ensuring that the secured level of resources can be efficiently allocated to the priority sectors, whilst also maintaining the delivery of essential services for our people.

The government is also committed to regain stability and sustainability of its financial position, by ensuring that all legitimate and ongoing contractual comitments, essential services and fixed costs are well within the secured revenue for the 2025 Budget. This is to support the restoration of SIG cash reserves as a fiscal buffer against macroeconomic and natural disaster shocks. Hence, the 2025 budget will ensure no significant planned deficit especially for the recurrent budget to regain fiscal stability.

The first section of this document sets out the overall policy direction and priorities of the Government. This section provides the 2025 budget theme, guiding principles and key overaching objectives of what the GNUT Government strives to achieve through the sectoral policy priorties.

The second section of this document will provide the macroeconomic outlook of the economy that framed the 2025 revenue estimates. Real GDP growth is projected at 3.4 percent in 2025, which is driven by a projected inflation rate of 2-4 percent. This positive growth primarily reflects expected growth in major sectors particularly, fishing, agriculture, mining and industry sector.

The third section will discuss fiscal parameters and the operational rules and timeline that all government ministries must strictly follow to ensure that the 2025 Budget is prepared and implemented smoothly throughout the financial year in accordance with the PFM Act 2013. Ministries must prioritise ongoing contractual comitments, fixed costs and other essential services and programs allocated to them and ensure that these priorities are well costed and are budgeted for. Sufficient information on expected outputs for 2025 should be clearly outlined and aligned to the successful delivery of these priorities for 2025.

It is imperative that Government continue to address issues of capacity constraints in the areas of budget and procurement planning and to ensure that inputs into the 2025 formulation process results in a *value for money* budget that delivers and attains Government's priorities in a transparent and accountable manner.

The Budget Strategy document seeks to remind all ministries of the purpose of the PFM Act in sections 5 and 6(a) and (b) which emphasize sound public financial management practices across government ministries through the administration of the Consolidated Fund and other public resources according to Budgeted Priorities of the Government.

The *Public Financial Management Act 2013* will continue to support improved financial management. The Act includes reforms to improve the credibility and transparency of the budget, whilst increasing accountability for budget outcomes. These reforms are intended to build the confidence and trust of Solomon Islanders, investors and our stakeholders. The Act will also help Government manage budget execution to maximise the benefits of public expenditure, and ensure it improves the long term growth of the Solomon Islands economy.

This document has been prepared in consultation with the Ministry for Public Service, the Ministry for Development and Aid Coordination, the Ministry for Finance and Treasury and the Office of the Prime Minister, the Central Ministries and Office that are members of the Budget Strategic and Coordinating Committee for the Government.

3. GUIDING PRINCIPLES OF THE 2025 BUDGET

The 2025 Budget theme is **"Accelerating Transformative Investment: A Pathway Towards a Resilient and Sustainable Economy**". The theme calls for togetherness, economic transformation and sustainable growth which is attainable through working together, investing in transformative projects and adopting sustainable strategies. As the economy is still recovering from the unprecedented shocks over the last four years; the government is committed to restoring its fiscal position by building back its monetary buffers, reduce the budget deficit and improve its cash flow management

The 2025 Budget represents the Government for National Unity and Transformation's (GNUT) key commitment to build a united, transformative and inclusive sustainable economic growth. To guide budget preparation, the 2025 Budget is grounded in the following principles;

- **Promote Transformative and Sustainable Growth –** encourage ministries to strategically redesign and prioritize activities, projects and investments that focus on transforming the country's key infrastructures, economic productivity, social services, national security and human capital. The transformative investments will support the ongoing economic recovery initiatives and creation of a conducive environment for business activities and new investors**.**

- **Maintaining A Affordable Budget –** fund a budget that is within the government's capacity by ring-fencing fixed costs, reducing discretionary costs to align with Government priorities.
- **Safeguard Fiscal Stability –** Strengthen fiscal discipline and reduce budget deficit, ensure the government commits to secured funding to deliver its policy priorities and also build cash reserves to act as fiscal buffers to address monthly funding mismatch and response to external shocks or natural disasters.

- **Improve Service Delivery through Quality Spending -** Improve cross sectoral arrangements, apply cost-effective measures and refocus resources to activities and services that will yield high impact or that will make a big difference in the lives of all Solomon Islanders.

- **Improve National Unity and Empower People –** National Unity is critical to economic development because it produces a peaceful environment for economic activities and enables corporations essential to policy objective attainment. Whereas people empowerment requires investing in education, health, social activities which enhances people's economic status.

- **Improve Good Governance and Accountability** - Strengthen accountability offices and institutions to combat malpractices, corruptions and development constraints that hinders our progress as a country.

It is imperative that if substantial transformation is desired within a shorter time frame, it requires adopting innovative and sustainable policies and frameworks which prioritized investing in activities that produces significant economic change via output and ensure such change must have a broader spillover effect to benefit majority of the population and at the same time, the change must be sustainable through adopting suitable sustainable policy and management framework.

It is also important that unity is empowered because it can create togetherness, maximise participation of citizens and therefore, produces a peaceful environment which is vital for creation and functionality of economic activities in the economy

It is also absolutely imperative that in order for economic activities to eventuate in the economy, there must be appropriate sufficient infrastructure available, and these includes roads, transport networks, buildings and communication facilities. Therefore, it is absolutely crucial that all existing infrastructure facilities are improved whilst new ones are constructed accordingly

One of the fundamental asset that any country needs to implement development is human capital and therefore, to attain this fundamental goal the Government must prioritize empowering human capital through provision of quality education, health, standard of living and participation

4. POLICY DIRECTION FOR 2025

Since our independence in 1978, Solomon Islands continue to face significant and diverse development challenges over the last 46 years. Major challenges facing our nation remains eminent despite our progress as an independent Sovereign nation, which include, low economic growth, weak governance at all levels and frequent socio-political instability

We are a Small Island County and our economy is small, highly dispersed and very vulnerable to global and domestic shocks. The private sector is still underdeveloped and needs to function in a transparent environment supported by quality infrastructure. Furthermore, than half of our population is young and not employed; and emerging environmental challenges pose serious threats to our people's livelihood.

On the political leadership, only a few governments had completed full term of four years in office. Political instability continued to constrain positive progress in the past 46 years.

Over the past 46 years, for about 25 years Solomon Islands had experienced crisis and responding to crisis, which included occurrences of natural disasters, global financial crisis, health pandemic and civil unrests.

Our journey towards nation building has been continually hampered, putting Solomon Islands on its knees, losing millions from the impacts of these unprecedented crisis.

The GNUT believes that political stability and unity of our people is very critical today, if we want to see peace and progress in our beloved country.

The 2025 budget therefore strives to achieve two important policy pillars to realize the Government's efforts to build a resilient and sustainable economy, as follows;

A. **Fast-track investment in key economic infrastructure to diversify the economy and achieve transformational economic growth.**
B. **Strengthen the delivery of services to our people.**

A. Fast-track investment in key economic infrastructure to diversify the economy and achieve transformational economic growth.

The GNUT believes that investment in key economic infrastructures are critical to diversify the Economy. Strengthening the legal framework to create certainty and confidence for investors is also critical to enhance economic recovery and build our resilience to achieve transformative growth in the short to medium term. Investments that upgrade or modernize our guiding policies, systems, and infrastructures will include:

- support to key policies or legislations to amend the National Building Code, Road Transport Authority, Electricity Act, Mineral Resource Bill, Forestry and Timber utilization bill, Tax bills, Environmental bill,
- upgrade of bridges in provinces and rural areas from wooden planks to metal and concrete,
- upgrade of dirt roads to tar-sealed roads with proper drainage,
- upgrade and weatherproofing of key critical infrastructure in provinces including airstrips, wharves, jetties ,and shelter at all passenger wharves,
- Compliance with overseas phytosanitary requirements to export our agricultural produce to overseas markets

Transformative Investments (projects) will include projects such as:

- expanding the reach of our telecommunication sector to rural and remote areas with fast, accessible, reliable and affordable internet connectivity;

- implementation of a nation-wide renewable energy strategy roadmap based initially on hydropower and photovoltaic energy;
- develop an overarching national energy roadmap that balances petroleum-driven energy and renewable energy;
- lengthening and widening of the international airport to allow for long-haul wide-body aircraft to operate non-stop to Honiara to enhance the tourism and business market;
- initiate consultations to develop a new and larger international seaport terminal outside of Honiara city to cater for future growth;
- fast-track tourism development including targeting an expansion of cruise tourism and attracting investors to invest in four and five star hotels to benefit from the fast-increasing global tourism market;
- explore and implement innovative revenue-generating programs such as investment program that has the potential to introduce new financing streams';
- Support the Maritime Roadmap to enhance and develop our maritime industry including the establishment of the International Shipping Registry;
- Prioritise funding and implementation of key socio-economic national infrastructure throughout the country.
- Explore a second submarine cable link to provide redundancy to our current cable and expand communication capacity.
- Strengthen agriculture extension substations, increase technical and advisory support to farmers, and provide financial incentives and technical assistance to stakeholders to enhance commercial production of export crops, cash crops, new emerging crops, livestock, Cocoa, Coconut, Coffee, and fruit trees.
- Roll out technical economic infrastructure for agricultural production, develop agribusiness and entrepreneurship hubs, and support farm modernization.
- Prioritize onshore and aquaculture initiatives, protect and maximize the benefit of tuna, maritime, and ocean resources
- Pursue the 'practical house-keeping' amendments to the Land and Titles Legislation; and,
- other transformative projects and activities will be explored in the productive and resources sectors

Under Legislative Reforms:

The Ministry of Finance and Treasury (MoFT):

- Improved tax administration will enhance increased tax collection resulting in higher revenue levels for the government.
- will expedite efforts to pursue urgent tax reforms in 2025 to spur economic growth
- Cabinet approved the VAT Bill in June 2023 and forwarded to AGC to vet the bill and expect to table the bill in 2024. Once approved by Parliament and enacted, the Bill will provide a fairer, efficient, and a more level playing field

The Ministry of Mines, Energy and Rural Electrification (MMERE):

- Review of the Electricity Act which will address current constraints relating to regulatory authority and electricity pricing. Ultimately the aim is to separate the regulatory function and the service provision function to come under separate bodies.
- The Ministry anticipates tabling the new Mines and Mineral Bill in late 2024. Once approved by Parliament and enacted implementation will follow which should make the mining sector more productive.

Institutional and Policy Reforms

- The Commodity Export Marketing Authority (CEMA) will further expand its presence throughout the country and bring services closer to our rural farmers and producers. The revitalisation of CEMA provides economic opportunities for the 80 percent of our rural population that depend on the agricultural and forestry commodities for their livelihoods. The Commodities Export Marketing Act will need to be reviewed to ensure that CEMA is more effective and efficient.
- The DBSI re-established in 2020 is delivering sustainable financing to small to medium businesses. This transformative initiative is already making economic impacts in SMEs accessing assistance from DBSI. 2025 Budget will continue to invest in DBSI to ensure it reaches more SMEs. It is imperative that constant review of the Act is done to ensure that this policy fully realises its purpose, especially in relation to funding of activities in the agriculture and aquaculture sector.
- The government will continue to pursue the establishment of special economic zones in the country to take advantage of the diverse opportunities and strengths for each separate zones or provinces
- The 2025 Budget will provide incentives to encourage and promote private sector investment in the productive and resource sectors.

B. STRENGTHEN DELIVERY OF SERVICES TO OUR PEOPLE

Solomon Islands is an archipelago of approximately 1000 scattered islands and stretches about 900 miles from the Shortland Islands in Western Province to the Santa Cruz Islands in Temotu Province.

According to 2019 census results, around 80 percent or 591,279 of the population resides in the provinces. Close to 26 percent of the population live in areas that are defined as urban compared to 74 percent who reside in rural areas.

The 2025 budget is designed to improve delivery of services to reach the people who resides in the rural or remote areas of our country.

Ensuring investments to empower our people is channelled through all government ministries including in education, in health, in children, youths, women and men. It also invests in national security, and programs to promote national unity and long-term peace and security of the country. It invests in the productive and resource sectors. It also supports the work of provincial governments across these areas to ensure ‘no one is left behind’.

Education

Government will continue to invest in the education sector in 2025, and the policy goal is to expand access, decrease the dropout rate, and improve facilities and equipping our schools through the following;

- Expand access and improve quality of education especially in the provinces and rural areas. In 2025, the government will continue with ongoing initiatives to improve access to technology (computers and internet connectivity) in schools.

- Government will continue to support schools through grant assistance to help them meet the cost of school operations and the provision of quality teaching and learning resources. Government assistance will be all encompassing from early childhood to secondary and to tertiary level.
- To address the issue of school drop outs and access to education, the government will continue its support towards existing initiatives upgrading of school infrastructure such as new classrooms, science labs, dormitories and ablution blocks and to support TVET in terms of legislative reform.
- Our assistance to SINU through budgetary and infrastructure and capital development support to improve SINU's status as University will continue.
- Education is crucial for Solomon Islands and whether you live in the islands or in remote rural areas, we must access to educational and vocational opportunities. Only through education training we can become competitive with our regional peers and the outside world.
- Government will support the policy on introducing STEM Education to produce skilled and innovative citizens to meet the technological revolution that demand skilled individuals.
- Government is committed to commence the implementation of the new Teachers Salary Structure.

Health

Solomon Islands has a high prevalence of communicable diseases such malaria, and respiratory infections. At the same time, non-communicable diseases has reached epidemic levels and is now responsible for about seven deaths from every ten deaths in the country.

In addition, our health system is weak, and must be strengthened to provide effective and efficient health services to our population.

The 2025 Budget will focus on three primary objectives for health namely (i) continue to invest in the control and hopefully elimination of malaria and other highly transmissible diseases to protect our people and our country, (ii) invest to tackle non-communicable diseases, the single largest killer of Solomon Islands people, and (iii) transform and strengthen our health system including modernization of health policies, Infrastructures, strategies, financial and information systems, transform distribution systems for medicines and drugs to all health facilities so that we no longer experience stock-outs, and improve the capacity human resources throughout the health system.

The Ministry of Health and Medical Services will continue to be provided with budget support to address our health system. Our goal is to dramatically improve the delivery of health services, while encouraging prevention measures at all levels of the society.

The Government support on health will be channelled towards areas directly related to service delivery, such as the purchase of drugs and medicines, consumables, dental prosthetics, oxygen supplies, and vaccines, as well as supporting operations of our health services.

Improvement of our medical infrastructure will continue with funds being provided for the construction and upgrading of health institutions as it is imperative to reach all parts of our country.

Work has already begun on the new PRC funded four-storey modern comprehensive health facility at the eastern end of the national referral hospital in 2024. This facility will transform the type and level of care we can provide to people in Solomon Islands. We are also encouraged by investors from the private sector on private health facilities to complement government institutions. The Government is still committed to pursue the National Referral Hospital Business Case.

NCDs is the single largest killer of people in Solomon Islands in which 70% of deaths in the country are due to NCDs such as diabetes, heart disease, heart attack, high blood pressure, stroke and cancers. The sad fact is that Solomon Islands do not need to die from NCDs because we can control the risk factors. The seven most important risk factors in NCDs are: (i) consumption of sugar / sugary foods and beverages. (i) Consumption of too much salt; (iii) consumption of too much fat and low quality oil; (iv) tobacco and cigarette smoking, (v) alcohol, (vi) lack of exercise, (vii) obesity.

All seven of the risk factors are within the control of each individual Solomon Islander, not the health system. Each individual must adjust their way of life to reduce the current NCD epidemic in the country.

The rising rates of non-communicable diseases (NCDs) are overwhelming the health system, straining the country's capacity to manage and contain them effectively.

The government will continue to advocate on a policy for healthy diet and exercise regularly. Be cautious of the saturated fats and salt in your diet. Eat more fruit and vegetables. To support this, the government will promote home grown vegetables and fruits and will be working with Ministry of Health and Medical Services and Ministry of Finance and Treasury to double our effort in the implementation of tax on sugary foods.

The government is formulating a strategy to increase taxes on the importation of fatty and sugary foods, given their detrimental effects on health. Additionally, excise duties on cigarettes and alcohol will be raised to further mitigate their harmful impact.

We want all Solomon Islanders to live a long and healthy lives. Our healthcare system is quite huge for a small economy like Solomon Islands to handle. Thus, we need a strategic approach, to move from curative to preventative health care.

National Security

The 2025 Budget will invest in the safety and security of our people through continued investments to the Ministry of Police, National Security and Correctional Services.

The number of posts in the Ministry is planned to increase incrementally to reach 2,500 officers over the next five years, an increase of 200 new officers per year. The current filled workforce now reached 2,463 of the total approved establishment of 2,683 positions. The police officer to population ratio in Solomon Islands has increased now to the point we must change, to maintain law and order.

In partnership with our partners, the police radio-communication network is being enhanced throughout the country. This will also transform communication capability for other users such as health and disaster offices in rural areas where they co-locate with RSIPF. The Government will support policy and legislative reforms to enhance police capability and strengthen national security. The Government is committed to improving infrastructure program.

Women and Youth Empowerment

The 2025 Budget will ensure continued priority accorded to our women and youth through the Ministry of Women, Youth, Children and Family Affairs. Support will also be provided through other ministries whose work also benefits women and youth for instance ministries of health and education.

OUTCOME OF THE NATIONAL ECONOMIC SUMMIT

As part of the 100 days policy of the Government, the first ever National Economic Summit was recently held on 31 July to 1st August 2024, jointly organized by the Ministry of Finance and Treasury (MoFT) and Ministry of National Planning and Aid Coordination (MNPDC). The two days summit gathered key stakeholders from the private sector, state owned enterprises, development partners and provincial governments to dialogue with the National Government on driving the overall economic growth in Solomon Islands. Based on the 2 days discussions, some actions points the Government is committed to address is around; which includes;

Enabling Environment – combine all sectors

- Improve the business environment and increase private investment
- Transformative investments in digital and communication connectivity
- Address irregular shipping and high freighting costs, this will increase domestic trade on key commodities
- Progressing work on independent power producers and policy options to manage sound utility tariffs.
- Foster climate resilience investments in infrastructure (land, sea and air)
- SIG to facilitate land reform (including land rights and customary land reform, which include land restitution) to enhance investments and business growth. This also include a call to address the land registry issues in the Ministry of Lands.
- Improve and support access to finance by local farmers and operators, include the small and medium enterprises
- Addressing quality assurance and food safety.

Production Measures

- Provide right and proper machineries, equipment and facilities to farmers to increase production.
- Design specific training programs for local farmers and operators in the areas of technical, marketing, financial and business management (especially in the productive sectors).

Markets and Trade

- Securing markets for valued added products
- Cold chain considerations to boost production and safety of seafood especially to supporting the informal fisheries sector.
- Understand, identify and support important players in the whole supply value chain especially for the productive sectors.
- Support trade facilitation and investment on local products
- Support development and marketing of tourism products.
- Support and organise festival events as strategies to promote and market local products.
- Government Policies
- Call to progress critical structural reforms, which include tax reform, mining reform, energy reform, forestry reforms
- Strengthen collaboration and coordination between SIG, Development Partners and Private sector.
- Reforms that will see landowners to be part of and benefit from development investments to ensure sustainability of investments.

- Transparency of fiscal policies and consider tax incentives for industries.
- Call to progress critical tax reforms and other structural reform.

Human Development and Mind Set

- A call to have a long-term Human Capacity Development plan that focuses on supply and Demand of the workforce
- A need for quality data of the Workforce and priority areas of Focus for the Government and private sector
- Support our local institutions to develop an appetite for research and development
- A reform of the education system – encouraging a system that promotes creative thinking and a growth mindset
- Organising of a Youth Economic forum that focuses on young entrepreneurs' skills and competence

Good Governance and address Corruption

- Decentralization – empowers provincial governments ensuring that resources are equitably distributed and local communities are active participants in their own development
- Maintaining a political neutral Public Service
- Strengthening & empowering institutions to address corruption – support to SICAC as one of the key institutions
- Reforming of institutions legislation that supports economic development

Role of Development Partners

- The call for transparency between the Government and development partners to promote effective coordination to implement fit-for-purpose economic policies. This include commitment to open new markets on critical products.
- The call for donors to support local jobs, skills transfer, job pathway building capacity of the Solomon islanders
- Programs offered by the Development partners must support urban and rural development and be inclusive
- the need to support young entrepreneurs with skills development, and building capacity

Other Actions

- Focus on forest conservation and venture into forest carbon marketing.
- Revive Anuha Islands as a prime tourist destination
- Facilitate look and learn opportunities for local farmers and operators
- Government to support operators to mitigate on the impact of climate change on investments, like tourism investments.
- A "Think Thank Group" was recommended to be set-up. This Group will be comprising of local expert as well as foreign expert. The Group's Terms of Reference will be developed, and appointment of members will be made by the Government.

Way Forward

As part of the short-term action going forward, key short-term recommendation of the Summitt will be prioritized and featured in the 2025 Development Budget and in the four years Implementation and Translation Document of the GNUT.

The key outcome of the Summit will form the main content of the Solomon Islands National Economic Development Roadmap which will be developed in the coming months.

Also, In preparation of the 2025, the prioritization of projects and the allocation of resources in 2025 Budget will be guided by the key recommendation of the Summit.

5. OVERALL 2025 BUDGET STRATEGY

I. Macroeconomic overview and outlook

Global overview

Global growth is projected to be in line with the April 2024 World Economic Outlook (WEO) forecast, at 3.2 percent in 2024 and 3.3 percent in 2025. However, varied momentum in activity at the turn of the year has somewhat narrowed the output divergence across economies as cyclical factors wane and activity becomes better aligned with its potential.

Among advanced economies, growth is expected to converge over the coming quarters. In the United States, projected growth is revised downward to 2.6 percent in 2024 (0.1 percentage point lower than projected in April), reflecting the slower-than-expected start to the year. Growth is expected to slow to 1.9 percent in 2025 as the labor market cools and consumption moderates, with fiscal policy starting to tighten gradually. By the end of 2025, growth is projected to taper to potential, closing the positive output gap.

In the euro area, a modest pickup of 0.9 percent is expected for 2024 (an upward revision of 0.1 percentage point), driven by stronger momentum in services and higher-than-expected net exports in the first half of the year; growth is projected to rise to 1.5 percent in 2025. This is underpinned by stronger consumption on the back of rising real wages, as well as higher investment from easing financing conditions amid gradual monetary policy loosening this year.

The forecast for growth in emerging market and developing economies is revised upward; the projected increase is powered by stronger activity in Asia, particularly China and India. For China, the growth forecast is revised upward to 5 percent in 2024, primarily due to a rebound in private consumption and strong exports in the first quarter. In 2025, GDP is projected to slow to 4.5 percent, and to continue to decelerate over the medium term to 3.3 percent by 2029, because of headwinds from aging and slowing productivity growth.

Global inflation is holding up progress on disinflation, which is complicating monetary policy normalization. Upside risks to inflation have thus increased, raising the prospect of higher-for-even-longer interest rates, in the context of escalating trade tensions and increased policy uncertainty. To manage these risks and preserve growth, the policy mix should be sequenced carefully to achieve price stability and replenish diminished buffer.

Table 1. Overview of world economic outlook

World Economic Outlook, July 2024 *Update*

Table 1. Overview of the *World Economic Outlook* Projections

(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
			Projections		Difference from April 2024 WEO Projections 1/			Projections	
	2022	2023	2024	2025	2024	2025	2023	2024	2025
World Output	**3.5**	**3.3**	**3.2**	**3.3**	**0.0**	**0.1**	**3.3**	**3.2**	**3.2**
Advanced Economies	**2.6**	**1.7**	**1.7**	**1.8**	**0.0**	**0.0**	**1.7**	**1.8**	**1.8**
United States	1.9	2.5	2.6	1.9	–0.1	0.0	3.1	2.0	1.8
Euro Area	3.4	0.5	0.9	1.5	0.1	0.0	0.2	1.5	1.5
Germany	1.8	–0.2	0.2	1.3	0.0	0.0	–0.2	0.8	1.7
France	2.6	1.1	0.9	1.3	0.2	–0.1	1.2	0.8	1.5
Italy	4.0	0.9	0.7	0.9	0.0	0.2	0.7	0.5	1.3
Spain	5.8	2.5	2.4	2.1	0.5	0.0	2.1	2.3	2.1
Japan	1.0	1.9	0.7	1.0	–0.2	0.0	1.2	1.6	0.3
United Kingdom	4.3	0.1	0.7	1.5	0.2	0.0	–0.2	1.5	1.6
Canada	3.8	1.2	1.3	2.4	0.1	0.1	1.0	2.2	2.2
Other Advanced Economies 3/	2.7	1.8	2.0	2.2	0.0	–0.2	1.7	1.9	2.8
Emerging Market and Developing Economies	**4.1**	**4.4**	**4.3**	**4.3**	**0.1**	**0.1**	**4.7**	**4.3**	**4.4**
Emerging and Developing Asia	4.4	5.7	5.4	5.1	0.2	0.2	5.9	5.3	5.0
China	3.0	5.2	5.0	4.5	0.4	0.4	5.4	4.6	4.9
India 4/	7.0	8.2	7.0	6.5	0.2	0.0	7.8	6.5	6.5
Emerging and Developing Europe	1.2	3.2	3.2	2.6	0.1	–0.2	4.1	2.3	3.7
Russia	–1.2	3.6	3.2	1.5	0.0	–0.3	4.8	1.8	1.7
Latin America and the Caribbean	4.2	2.3	1.9	2.7	–0.1	0.2	1.5	2.5	2.5
Brazil	3.0	2.9	2.1	2.4	–0.1	0.3	2.2	2.9	2.0
Mexico	3.7	3.2	2.2	1.6	–0.2	0.2	2.3	3.0	1.1
Middle East and Central Asia	5.4	2.0	2.4	4.0	–0.4	–0.2	. . .	. . .	. . .
Saudi Arabia	7.5	–0.8	1.7	4.7	–0.9	–1.3	–4.3	2.6	4.3
Sub-Saharan Africa	4.0	3.4	3.7	4.1	–0.1	0.1	. . .	. . .	. . .
Nigeria	3.3	2.9	3.1	3.0	–0.2	0.0	2.8	3.3	2.7
South Africa	1.9	0.7	0.9	1.2	0.0	0.0	1.3	1.3	0.9
Memorandum									
World Growth Based on Market Exchange Rates	3.0	2.7	2.7	2.8	0.0	0.1	2.8	2.7	2.8
European Union	3.7	0.6	1.2	1.8	0.1	0.0	0.5	1.7	1.8
ASEAN-5 5/	5.5	4.1	4.5	4.6	0.0	0.0	4.2	5.5	2.9
Middle East and North Africa	5.4	1.8	2.2	4.0	–0.5	–0.2	. . .	. . .	. . .
Emerging Market and Middle-Income Economies	4.0	4.4	4.2	4.2	0.1	0.1	4.7	4.3	4.4
Low-Income Developing Countries	4.2	3.9	4.4	5.3	–0.3	0.1	. . .	. . .	. . .
World Trade Volume (goods and services) 6/	**5.6**	**0.8**	**3.1**	**3.4**	**0.1**	**0.1**	**. . .**	**. . .**	**. . .**
Advanced Economies	6.2	0.1	2.5	2.8	0.3	–0.1	. . .	. . .	. . .
Emerging Market and Developing Economies	4.5	2.0	4.2	4.5	–0.1	0.5	. . .	. . .	. . .
Commodity Prices									
Oil 7/	39.2	–16.4	0.8	–6.0	3.3	0.3	–4.4	–2.4	–5.7
Nonfuel (average based on world commodity import weights)	7.9	–5.7	5.0	1.6	4.9	2.0	–0.2	7.7	0.5
World Consumer Prices 8/	**8.7**	**6.7**	**5.9**	**4.4**	**0.0**	**–0.1**	**5.8**	**5.5**	**3.6**
Advanced Economies 9/	7.3	4.6	2.7	2.1	0.1	0.1	3.1	2.5	1.9
Emerging Market and Developing Economies 8/	9.8	8.3	8.2	6.0	–0.1	–0.2	8.0	8.0	4.9

Solomon Islands recent economic update (2024)

The real GDP growth for Solomon Islands is estimated to grow at around 2.8 per cent in 2024 from 2.7 per cent in 2023. This is 0.3 per cent increase compared to the 2023 budget projections and 0.1 per cent higher than last year's estimates. This is primary due to stronger than expected performance in agriculture, mining, fishing, construction, wholesale and trade, other business and service sector. However, logging output and other primary sectors particularly copra and cocoa are estimated to fall in 2024.

Solomon Islands Economic Outlook for 2025

The Solomon Islands economic growth is expected to remain stable as real GDP growth is projected at 3.4 per cent in 2025 and 3.5 per cent in 2026. Compared with the projection in the October 2023 budget, growth has been increased by 0.3 percent for 2025 and 2026. The economic growth projection is well above the historical average GDP growth of 2.5 percent during pre- COVID-19 period; however, this growth is still uncertain and could be changed given the ongoing war in Europe and Middle East, associated with the uncertainty in the price of commodities.

The industry sector is expected to drive growth in 2025 and 2026, with a stronger mining activity from Nickel and Gold exports, offsetting the slowdown in construction activities and other business services. The Mining sector is projected to increase by 15.1 per cent, as Gold Ridge and nickel mining are expected to hit full production in 2025 aligning with several prospecting and mining developments over the near term.

The growth outlook for primary sector is expected to be broadly stable, at 2.6 percent in 2025 and 2.8 per cent in 2026, though a downward trend in logging activities. The agriculture and hunting sector is expected to increase by 4 per cent in 2025, this is mainly driven by the informal and formal sector as domestic activities are expected to continue stronger in 2025. Agricultural export commodities expect an improvement as government policy focuses more on improving key constraints within the sector. With the recent National Economic Summit, Agriculture sector is one of the key sectors with potential to add more value to the economy with the support of both private and public sector.

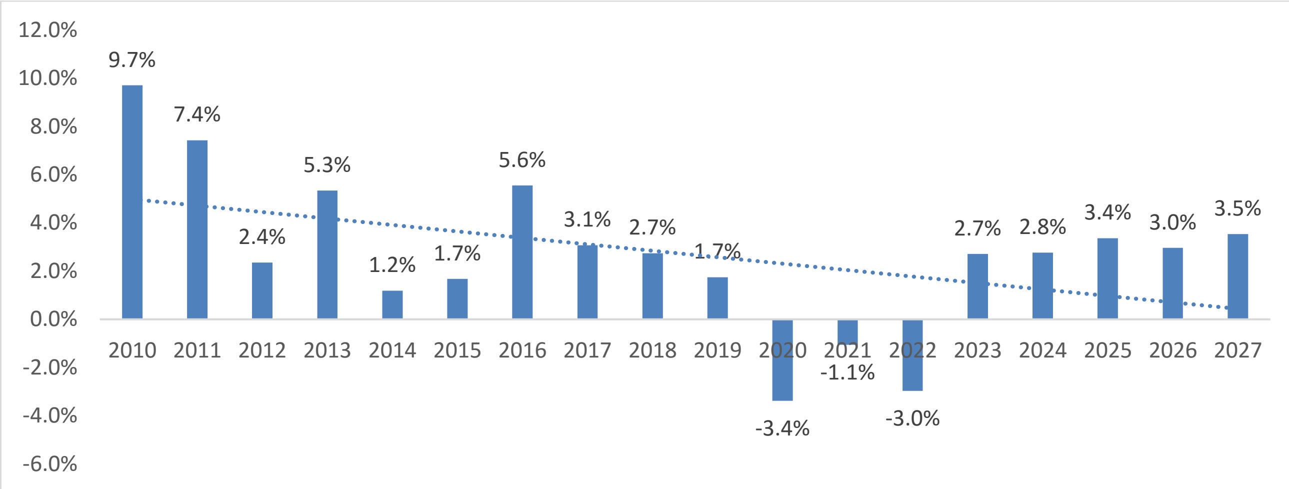
Fishing activities are expected to perform stronger in 2025, as growth is projected to increase by 4.4 per cent from 1.2 per cent in 2024. The increase in growth is relatively due to an increase in catches due to good weather conditions as more fish are anticipated to our EEZ with the additional news boats together with higher demand for fish from the importing countries as well as domestic consumptions.

Forest and logging activities, however, are projected to decline by 5.6 per cent in 2025, as the log output decline by around 1.4 million – 1.6 million cubic metre owing to general depletion of our forest resources. The downfall in logging activities could impact on the exports and government revenue. As a result, the primary sector is anticipated to subtract from growth in 2025. This projection may likely be changed due to the uncertainty of international prices for logs and government policy.

Business and service activities are expected to increase by 3 per cent of growth in 2024 as the domestic economy is expected to continue to recover from shocks with more improvement in business services and an expected boost from the national infrastructure project and private project particularly Tina Hydro and mining development.

In terms of contribution to growth, Services and primary sectors are expected to contribute by 2.4 per cent and 0.8per cent, respectively, in 2025, while the industry sector is projected to contribute by around 0.2 per cent., After recovery from the global shock over the past 3 years, Solomon Islands' growth is expected to grow at around 3 -5 per cent into the medium term. Although growth is expected to be positive, this is still well below the projected growth outlined in the National Development strategy.

Figure 2: Solomon Islands Real GDP Growth



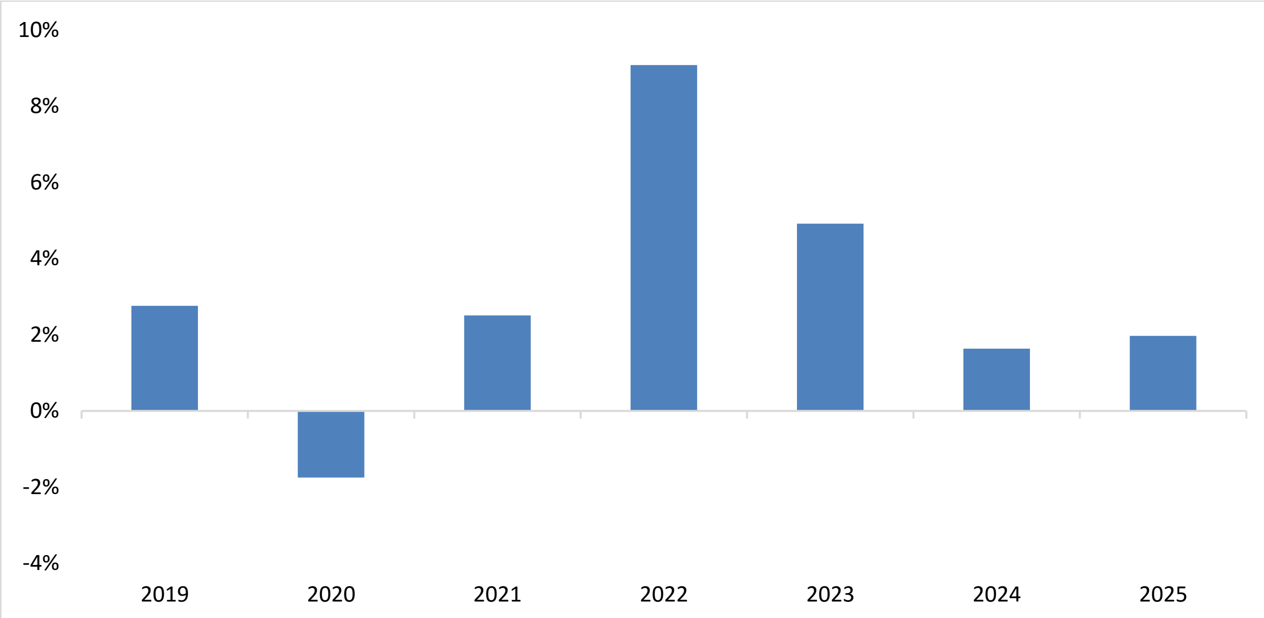
Inflation Outlook

Solomon Islands Inflation is forecast to be around 2-4 per cent in 2025 and grow at a historical average of around 3 percent over the medium term taking into account the continued uncertainty in fuel prices and shocks in Europe and Middle East. Commodity prices are forecast to remain broadly unchanged. However, prices are still expected to remain above pre-pandemic levels, which will continue to weigh on affordability and food security.

Domestic inflation is expected to increase by 2.2 per cent in 2024, mainly driven by the price of fuel, non- alcohol, water, electricity, gas and food. Increase in price of Transport and tobacco & narcotic and alcohol beverage also contributed to the growth of inflation in 2025

Volatility in international commodity markets remains the primary external risk to domestic inflation. Solomon Islands high dependency on fuel and imported items for production and the lack of immediate substitutes will also add inflationary pressures to domestic prices. The high levels of liquidity currently in the banking system are also a potential risk for inflationary pressure should lending activities pick up significantly.

Figure 3: Solomon Islands Consumer price index for 2025



Fiscal outlook

Four years after the pandemic and riots, domestic revenue collection is finally improving. 2023 saw revenue grew by 8 percent, marking the reversal of the downward trend observed since 2018. This positive momentum continued into the first and second quarters of 2024, with updated projections indicating that year-end collections to grow to 7 percent over the 2023 actual collections.

IRD has been the key driver behind this upturn in domestic revenue collection. A surplus of $88.8 million was recorded for 2023 and signalling IRD's return to pre-covid levels. As of June 2024, IRD has already eclipsed that threshold with a surplus collection of $109.9 million. Much of this growth can be attributed to strong performances in Company Tax, Goods Tax, and Personal Taxes. As the economy continues to recover, revenue collection from the IRD is projected to increase further in 2025. More businesses are now finally able to turn profits after reporting loses in recent years, leading to additional increases in Company Taxes and Goods Tax in 2024 and with further growth anticipated in 2025. The labour force participation has also risen, averaging a growth rate of 1.15 percent since 2022 and contributing to further increases in personal taxes and other consumption taxes.

In contrast to the IRD, the CED has struggled to maintain a positive revenue collection. This is despite starting the year very strongly with robust collection from log export duties in January. Year-to-date collections for the CED initially recorded a surplus of $32.3 million before eventually diminishing to $26.6 million by the end of the second quarter, as log export duty begun to fall. Log export has always been a key driver for CED; however, over the past medium term, revenue from this sector has significantly declined as a result of falling prices and reduced production volumes. Looking ahead, revenue collection from log exports may increase in the medium term as CED compliance efforts continue to improve, but it is unlikely to return to 2018-2019 levels. On the other hand, revenue from mineral export duties is increasing following recent expansions in the mining sector.

Consecutive surpluses were recorded during the first half of 2024 with the industry is expected to generate additional revenue for the remainder of the year and into 2025 as more mining companies commence exports.

Figure 4. Domestic Revenue Estimates outlook

REVENUE (SI $million)	2018 Actual	2019 actual	2020 Actual	2021 Actual	2022 Actual	2023 actual	2024 Budget Estimates	2024 MYBR	2025 Budget Estimates	2026 Budget Estimates	2027 Budget Estimates	2027 Budget Estimates
Inland Revenue Division	**1,983**	**1,969**	**1,742.34**	**1,782.90**	**1,819.8**	**2,010.4**	**1,979.3**	**2,158.5**	**2,192.4**	**2,238.2**	**2,277.7**	**2,348.3**
Company tax	306.6	301.6	317.7	280.5	269.3	284.0	296.0	340.5	351.1	358.1	369.2	380.6
Personal tax	500.7	509.5	406.4	412.1	446.1	503.2	487.3	533.4	516.6	532.6	524.6	540.9
Withholding tax	285.7	294.2	284.0	301.6	267.5	265.8	280.7	293.4	302.5	293.5	302.6	312.0
Goods tax	775.2	755.7	630.5	684.8	735.5	830.7	797.6	861.7	888.4	916.0	944.3	973.6
Sales tax	83.5	77.7	72.8	74.3	68.1	85.3	83.0	83.8	86.4	89.0	87.7	90.4
Stamp duty	15.5	13.0	11.8	11.1	15.4	22.1	16.4	25.7	26.5	27.3	26.9	27.7
Licence revenue	15.7	17.4	19.2	18.6	17.9	19.3	18.3	20.0	21.0	21.7	22.3	23.0
Customs and Excise revenue	**1,323.2**	**997.5**	**962.73**	**893.3**	**825.6**	**908.6**	**924.5**	**995.2**	**1,026.1**	**1,048.9**	**1,081.4**	**1,106.2**
Import duty	293.7	246.2	256.2	272.6	248.3	311.2	296.0	323.9	334.0	350.7	361.5	379.6
Export duty	794.2	562.2	480.7	411.4	325.3	330.9	363.3	361.7	372.9	369.2	380.6	376.8
of which: export duty on log:	789.8	541.4	477.0	406.4	321.2	307.3	358.7	335.9	346.3	342.9	353.5	350.0
export duty of non-log relate	3.4	19.8	3.7	5.0	4.1	23.6	4.6	25.8	26.60	26.3	27.1	26.9
Excise duty	232.7	188.0	220.5	201.8	247.2	263.4	260.1	306.3	315.8	325.6	335.7	346.1
Fees, Charges and others	2.6	1.1	5.4	7.5	4.7	3.1	5.1	3.3	3.4	3.4	3.6	3.6
Total CED/IRD	**3,306.2**	**2,966.6**	**2,705.1**	**2,676.2**	**2,645.4**	**2,919.0**	**2,903.8**	**3,153.7**	**3,218.5**	**3,287.1**	**3,359.1**	**3,454.4**
other revenue	**502.7**	**482.1**	**432.5**	**457.9**	**297.7**	**265.9**	**422.5**	**297.7**	**326.5**	**360.8**	**365.2**	**372.5**
Total Estimated revenue	**3,808.9**	**3,448.7**	**3,137.6**	**3,134.1**	**2,943.1**	**3,184.9**	**3,326.3**	**3,451.4**	**3,545.0**	**3,647.9**	**3,724.3**	**3,826.9**

Total IRD revenue for 2025 is projected to be $2,192.4 million. This is around $213.1 million (or 11 percent) higher than the original 2024 Budget estimate of $1,979.3 million and around $182.0 million above the 2023 actual collections. IRD revenue collection is projected to increase as business activities continue to pick up after the recent economic downturn in recent years.

Estimates for the Inland Revenue Division for 2025

Sales tax is forecasted to be around $86.4 million in 2025, a 4 percent increase from the 2024 budget forecast of $83.0 million and a 1 percent increase over the actual collection in 2023.

Company tax is estimated at $351.1 million in 2025, an increase of $55.1 million or 19 percent from the original 2024 budget of $296.0 million, and a 23% or $61.1 million increase over the actual collections in 2023. Along with Goods tax and Personal taxes, company tax has performed well in 2023 and 2024 as businesses become profitable again.

Goods tax is estimated to be $888.4 million in 2025. This is $90.8 million above the 2024 original budget of $797.6 million and $57.7 million above the 2023 actual collections of $830.7 million. Goods tax was a strong performer in 2023 and has maintained the same trend in the first half of 2024. Most businesses have now recovered from the pandemic and 2021 riots and are on track to return to pre-COVID levels. Further growth is expected from this category for the remainder of 2024 and 2025 as the business environment continues to improve.

Personal tax (PAYE) is estimated to be $516.6 million in 2025. This is $29.3 million above the 2024 original estimates and $13.4 million above the 2023 actual collections. In addition to goods tax and company tax, personal taxes have also shown consistent performance throughout the first six months of 2024, recording consecutive surpluses year-to-date total of $26.86 million.

Stamp duty estimated to be $26.5 million in 2025. This is $10.1 million above the 2024 original budget and $4.4 million above the 2023 actual collections. Similarly, **licenses revenue** is also expected to increase to $21.0 million, which is $2.7 million more than the 2024 original budget and $1.7 million more than the 2023 actual collections.

Estimates for Customs and Excise Division (CED) for 2023

Total CED revenue is estimated to be $1,026.1 million in 2025. This is $101.6 million or 11 percent above the 2024 original budget and $117.5 million or 13 above the 2023 actual collections. The increase comes after a relatively strong performance from CED during the first six months of 2024, mainly due to improved log receipts in the first quarter of 2024. All though Log export receipts is not expected to repeat the highs observed in Q1 2024, import duty, mineral export duty as well as excise duties for tobacco and beer is anticipated drive growth for the remainder of 2024 and in 2025.

Import duty is projected to be $334.0 million in 2025, which is approximately $38.0 million higher than the 2024 original estimate of around $296.0 million and $22.7 million higher than the 2023 actual collection of $311.2 million SBD. The reopening of international borders in 2022 has led to an increase in the importation of goods, resulting in higher duties on items such as food, manufacturing goods by material, manufacturing and transport equipment, miscellaneous manufacturing items, diesel, and other fuels in 2023. This trend was observed in again in the first half of 2024 and is expected to continue into 2025.

Export duty estimates for 2025 is at $372.9 million. This is $9.6 million higher compared to the 2024 original budget and $42.1 million above 2023 actual collections. Export duty from logs for 2024 projected to be $346.3 million, a decrease of $12.4 million below the 2024 original budget. Despite the initial strong performance at the begging of 2024, earnings from this sector have gradually declined towards the end of the second quarter. This was a result of combined impact of low export volumes and low commodity prices. Non-log related export duty on the other hand is revised up to $26.6 million, reflecting the recent surge in mining activities.

Excise duty is estimated at $315.8 million in 2025. This is $55.7 million more than the 2024 original budget and as well as $52.4 million more than the 2023 actual collections. The expected increase in collection is a result of a strong performances from tobacco and beer excise duty in the first half of 2024.

Fees, Charges and Penalties are estimated to be $3.4 million in 2025; a $1.7 million decrease from 2024 original budget but a $0.3 million increase from 2023 actual collection.

Non-tax revenue estimates for 2024

Other Ministries revenue are forecasted at $326.5 million SBD for 2025. This was around $96.0 million SBD lower than the 2024 original budget. This source of revenue primarily depends on each ministries ability to collect revenue the return to pre-covid levels could fuelled positive collection in 2025.

Tax reform

The current Tax system of the Solomon Islands has not supported growth over the past years as it remains a major constraint on business. It is complex and costly to administer. However, government taxation is the only practical means of raising revenue that would support service delivery throughout the country.

The Government for National Unity Transformation (GNUT) has also reiterated that tax reform will remain a key priority for the Government to simplify the tax system and encourage a more efficient, transparent, fair and competitive tax system. This will reduce collection costs and promotes compliance, produces a level playing field and lessen opportunities for rent-seeking.

The government over the medium term is focused on reforming the tax system. This included reforming consumption-based taxes and income taxes to ensure fairness and efficiency. The reforming of the tax system is crucial, the redesigning of the tax system should focus on the cost-effectiveness of revenue collection and its overall excess burden on the overall economy. Thus, by redesigning and broadening the tax base, the government is also reducing the incentives effects of taxation.

With the implementation of the Tax Administration Act, this has paved the way for other tax reform initiatives and will create a unified tax administration law that strengthens our revenue collecting agencies to better administer and collect revenue and contribute to the overall reform of the country.

As part of the Government's 100 day policy, the Government is committed to pass the Value Added Tax (VAT). A consumption tax that would broaden the tax base and support economic growth and development of this country.

The VAT Bill is expected to be tabled in Parliament in the second half of 2024, and the full implementation of the VAT would likely take place in January 1 2026.

Phase two of the tax reform work d commence in the second half of 2023 with the ADB providing technical support for the reviewing of the income tax act. Work on policy for the review has started last year with the policy for the Income Tax Act is expected to be approved by Cabinet in the second half of 2024.

STATEMENT OF RISKS.

Domestic risks to the economic outlook reflect external buffers, subdued investor enthusiasm and lower fiscal revenue due to the internal and external shocks. At present, lower economic growth relies disproportionately more on expansionary fiscal policy and unsustainable logging. The impact of shocks on logging activity and other services sectors, while seemingly short-lived, has heightened the risk that may be more rapid and disruptive on the economy than anticipated.

Thus, over the medium term, logging will pose a significant risk to the macroeconomic outlook of the economy, especially as it accounts for a growing share of exports. Any decline in logging in the future would adversely affect the government's finances and require it to identify new sources of revenue, such as strengthening the taxation regime for the mining sector, to support government expenditures. Successful completion and implementation of the tax review will lead to a taxation system more attuned to promoting economic growth and foreign investment in the medium term.

Although logging is expected to subtract from growth, other sectors are expected to grow in the near term. There are several measures that will be being implemented in 2024/2025, goods tax amendments, and other additional compliance work, to strengthen the revenue sources of the Government, including reviewing the non-tax revenue sources.

The uncertainty of commodity prices could also pose a risk for the economy, affecting commodity exporters such as copra and cocoa through loss in export and revenue. This could tip some economies into debt crises and slow economic activity further. More generally, cross-border spill overs from weaker external demand and tighter financial conditions could further magnify the impact of the country- or region-specific shocks on global growth.

Political instability

It should be noted that changes in government will change government priorities, which may cause disruption to reform activities and may reduce broader economic activity and presents a downside risk to growth.

Natural disasters and other extreme events

Like all Small Island Developing States, Solomon Islands is among the most exposed and vulnerable to lingering risks related to climate and natural disasters. Pacific Island countries are exposed to earthquakes and adverse natural weather events, which have the potential to have significant impacts on livelihoods and infrastructure, significantly impacting economic growth and development and severe impact of Government finances. This lingering risk underscores the importance of sufficient cash-buffers to assist the country manage such events.

Change Budget Index and Integration (CCBII)

In the Solomon Islands, a major share of overseas development assistance (ODA) is not being managed through government systems with over 50% of ODA going off-budget. Solomon Islands Government (SIG) introduced a climate finance tracking tool that helped the government document external climate finances. However, the data collected from this tool does not provide a comprehensive view of the fiscal picture and in the absence of climate budget tagging (CBT) several expenditure items, particularly those that are driven by economic interests but have inherent Climate Change implications go unreported, consequently it underestimates SIG’s fiscal commitment.

In implementing one of the key pillars of the “Solomon Islands Roadmap for Improving Access to Climate Finance and Public Spending 2022-2027” -Improving Resource Management -Climate Budget Coding, a preliminary Climate Change Budget Index Integration (CCBII) assessment has been conducted and mainly to identify gaps and entry points for Climate Budget Tagging and Tracking. Work is currently in progress in 2024 on climate typology, a key structured framework for climate budget tagging and tracking.

Disaster Risk Financing Strategy

The Solomon Islands Government (SIG), through the Ministry of Finance and Treasury (MoFT), has also developed the National Disaster Risk Financing (DRF) Strategy 2024-2027. It is a policy initiative by SIG mainly to strengthen the financial protection of the Solomon Islands against disasters as part of a broader effort to support resilient and sustainable development. The implementation of the strategy is expected to begin in the fourth quarter of 2024.

6. DEBT OUTLOOK

This section highlights the SIG Debt policies, key requirements of the MTDS and the debt outlook for the next financial year.

Debt Policy
SIG debt policy for the medium term will continue to focus on achieving debt sustainability by aligning to the Debt Management strategies and adopting sound risk management.

SIG debt policy for the medium term will continue to focus on achieving debt sustainability by aligning to the Debt Management strategies and adopting sound risk management.

Key strategies for managing debt levels over the medium term are itemized below:

- Ensure the appropriation to the DSA is in sound position for all maturing debt and uncertainty recovery to be fully repaid, there will be no rollover;
- Priority be given to bilateral Grants and donor support for development financing and reduce reliance on concessionary credit borrowings to lessen exposure to foreign exchange rate risks;
- Reduce deficits gradually to achieve a progressive reduction in the Debt to GDP ratio;
- DMU will focus on the development of the local primary market for an efficient market for Government securities to raise new finances;
- Develop the local domestic capital market to be vibrant with a diverse range of debt and equity instruments, improve liquidity, promote secondary market trading and create new bonds with varying yields and maturity structures;
- Maintain a stable and affordable debt maturity structure to reduce the burden of resettlement and minimize exposure;
- Identify opportunities to re-finance expensive debt under concessional loan facilities with bilateral and multilateral agencies;
- Prudent management of contingent liabilities and government guarantees by putting in place rigorous measures to improve the commercial performance of State Owned Enterprise (SOEs) and prevent risky borrowings; and
- Establish an open and collaborative investor relations platform to promote Government issuance program and build confidence in investing in debt instruments

Medium Term Debt Strategy

The SIG fiscal policy stance will continue to focus on growing the productive capacity of the islands' economy through infrastructure investment, ensuring improve quality for all Solomon Islanders, strengthen SOEs' financial performance and maintaining an enabling environment for the private sectors to thrive and drive future growth**.**

The MTDS which was approved by the DMAC in 2021 is to ensure that the financing needs of the SIG for the medium term are met on a timely basis, with borrowing costs as low as possible and consistent with a prudent degree of risks.

Consistent with Medium term fiscal strategy to achieve macro-economic stability and inclusive economic growth with a commitment to fiscal responsibility, the Medium-Term Debt Strategy is to target a 'low risk' debt sustainability rating through:

A. Maintaining SIG Fiscal Targets namely:

- Nominal Growth in GDP to be above 3 percent in the medium term;
- Mandatory deduction to the DSA from SIG Domestic Revenue to be appropriated in the Budget

B. New borrowings for the foreseeable future is projected at maintaining or be within the 35 percent of GDP targets; the aim to maintain the debt to GDP ratio at sustainable levels over the medium term

- o if new debt is to be considered, it must be concessional – either a minimum 35 percent grant element, or supported by back-to-back grant funding that meet all principal and interest payments.
- o All maturing debt whether locally or external are to be fully paid upon settlement.

C. Maintenance of the debt sustainability indicator ratios as highlighted in the DMS which comprise of:

- o **Maximize net economic benefit, promote development and maintain debt** at a sustainable level
- o **Minimize the cost of Government borrowing**, subject to an acceptable level of risk. New Government borrowing because the PFMA requires new Government borrowing to be: 1) approved/authorized by the Minister of Finance; 2) reviewed by the DMAC; and 3) incurred subject to an Annual Borrowing Limit (ABL).
- o **Promote the development of the domestic debt market.** Developing the domestic debt market in the Solomon Islands can mean many things, including: 1) the promotion of Government securities through the maintenance of a properly functioning primary market; (2) the development of a secondary market for Government securities; or (3) a 'lengthening' of the existing Government securities yield curve
- o **Minimize variability in SBD** - Foreign exchange risk refers to the potential for variability in the SBD value of future DSR payments, due on foreign currency denominated Government borrowings, which are unhedged. The SBD value of these obligations are a function of: 1) the foreign currency denominated value of debt service obligations; and 2) foreign exchange rates prevailing at the time the DSR payments are made.
- o **Low Cost of Borrowing:** Interest rate risk refers to the potential for variability in the SBD value of future interest payments, due on variable/floating rate Government borrowings, which are unhedged. The SBD value of interest payments on variable/floating rate Government borrowings are a function of the variable interest rate prevailing at the time the interest payment is scheduled to be paid. There is no interest rate risk exposure on fixed-rate Government borrowing (i.e. there cannot be any variability in interest cost on these obligations)
- o **No rollover of long-term debt except for Treasury bills -** Rollover/refinancing risk refers to the potential that a borrower cannot issue enough new debt to repay the principal due at maturity of existing debt, resulting in a default. This possibility exists if a borrower has adopted a strategy to rollover and refinance maturing debts, instead of repaying them from forecast revenues and/or accumulated cash reserves. SIG's only rollover risk exposure exists with respect to the Treasury Bill component of the portfolio, which is a small component of the total portfolio
- o Inflation risk refers to the potential for variability in the SBD value of future DSR payments, on particular forms of debt (i.e. Inflation-linked debt), which have repayment obligations linked to inflation. Materialization of inflation risk can result in adverse cost outcomes on all forms of Government borrowing, which in turn can be the cause of a default on all forms of Government borrowing. SIG is therefore potentially exposed to inflation risk on all forms of Government

borrowing. Currently, SIG's portfolio of Government borrowing contains no inflation-linked debt and there is limited scope for inflation-linked debt to be issued in the near future.

- **Exclusion of borrowing as alternative funding for Deficits**. Currently, the PFMA precludes SIG from borrowing to fund planned recurrent deficits and T-Bill issuance is undertaken primarily to maintain a properly functioning primary market, which has the effect of providing adequate cash reserves for SIG to draw upon to meet within-year funding shortfalls
- **Non-Permissible Borrowings** which comprise of (a) Guarantees provided by sub-national entities; and (b) On-lending arrangements where a sub-national entity is a debtor of a primary loan and creditor of a subsidiary loan

Debt Outlook: Medium Term Fiscal Targets

The Table below reflect the debt status based on the macro fiscal framework.

	2022 Prov	2023 Prov	2024 Budget
REVENUE			
SIG Revenue (Recurrent)	3,064.9	3,202.6	3,312.0
Grants & Budget Support	659.4	177.4	135.3
Total Revenue	**3,724.3**	**3,380.0**	**3,447-.3**
EXPENDITURE			
SIG Expenditure (Recurrent)	3,127.1	3,461.0	3,611.7
Development Budget	936.1	1,170.9	305.0
Budget Support	764.4	252.4	487.0
Total Expenditure	**4,827.6**	**4,884.3**	**4,403.7**
Budget Balance	-1,103.3	-1,504.3	-956.4
External Development Financing	880.7	320.2	487.0
Fiscal Balance	**-222.6**	**-1,184.1**	**-469.4**
Total Debt Outstanding Projections	**1,891.3**	**3,080.4**	**3,424.7**
Debt as % of GDP	13.5%	20%	22%

Source: Ministry of Finance and Treasury

- **Moderate Debt Level – while fiscal gap has widened**, the SIG anticipates debt position to be at moderate level at the end of 2025 fiscal year.
- **Economic Growth –** the SIG is optimistic that with the level of investment and increase in Government Expenditure over the years, the growth rate is projected at 2.5 percent for FY2024 and slightly high growth rate in the medium term.

SIG Central Government Debt Outstanding

The composition of total official public debt is almost equal, external debt is slightly higher than domestic debt. This is mostly due to the weak domestic currency that results in appreciation of disbursement outstanding debt at the end of financial year carrying a higher balance.

Domestic market will remain major source of borrowing for the Government in 2025 and beyond. All external financings are link to capital and infrastructure projects.

SIG Public Debt Position (Actual and Forecast -$SBDM)			
	Dec-2022	**Dec-2023**	**Dec-2024 (Forecast)**

Domestic Debt			
- Domestic Development Bonds	645.9	1,035.8	1,182.5
- Treasury bills	100.4	131.4	160.2
Sub-Total	746.3	1,167.2	1,342.7
Special Securities AC	4.9	24.9	0.0
Total Domestic Debt	**751.2**	**1,192.1**	**1,342.7**
External Debt			
Multilateral Creditors	952.0	1,321,0	1,534.5
Bilateral Creditors	188.0	297.5	356.7
Total External Debt	**1,140.0**	**1,618.6**	**1,891.2**
Totals for Official Public Debt	**1,891.2**	**3,080.4**	**3,233.9**

Source: CBSI and Min of Finance & Treasury

Annual Borrowing Plan

In 2024, the projected Annual Borrowing Plan approved by the DMAC was $558 million. The ABP provides a sound strategy for the Government and the institutional investors in ensuring the successful floatation of Government Securities.

Furthermore, fiscal discipline is imposed on the Government through the Public Financial Management Act (PFMA), which excludes the use of borrowing to fund recurrent budget deficits. With the current level of Debt to GDP it is still considered sustainable and affordable. The current level of debt stock stood at around SBD2.9 billion (June 24 Report), this represented disbursed loan amount to date. Undisbursed loans were not counted as debt until they were actually drawn down.

The Government has increased the Treasury Bill ceiling to $200 million to be raised throughout the year.

1. Loan and Grant under Processing in 2024

Tabulated below are the status of infrastructure projects and programs that are in the pipeline to continue rollover into 2024 and the new programs to be finalized for implementation.

Project Details	Donor/Financier	Financed by:		Remarks
		Loan	Grant	
INTERGRATED SOLID WASTE MANAGEMENT PROJECT – CLIMATE & DISASTER RESILIENT HONIARA	ADB	**US$6.93m**	**US$12.4m**	ISWM-CDRH project will help the Greater Honiara Area (GHA), the Solomon Islands' main urban centre, to become more liveable, environmentally sustainable, and climate and disaster resilient
COMMUNITY ACCESS & URBAN SERVICES ENHANCEMENT	IDA	**US$13.2m**	**US$7.0m**	CAUSE II will increasingly focus on economic growth, climate resilience, planned improvements to transport networks, and enhancing prospects for sustainable
	Aust Govt through the PPIUF		**US$17.0**	

PROJECT II (CAUSE II)				urban management and service delivery
Renewable Energy Development Project	ADB	**US$10m**	**US$5m**	The project will finance the construction of (i) a 1 MWp grid-connected solar photovoltaic (PV) power plant in Honiara; (ii) a 1.5 MW grid-connected hybrid solar PV power plant and 1 MW/4 MWh BESS in Malaita Province
	SFD	**US$10m**		
Development Projects under SIG Program	JICA	**US$18m**		This will be a mix of Loan and grants that would be channel to finance various infrastructure programs at all levels of Government and provinces. The support also includes Training and Capacity building. A formal arrangement with JICA is under consideration
Tina River Hydro Power Project (Additional Financing)	IDA/ADB/EDCF/ADFD	**US$40m**	**US$25m**	obtaining additional commitments needed to complete the Project under the PPA Settlement Agreement
Supplement BPO	IDA	**US$3.5m**	**US$11.5m**	Budget support for SIG to enhance climate resilient infrastructure and diversify the economy to achieve 5% growth in the Medium Term.

I. 2024 Domestic Development Bond

The government is planning to issue domestic bond to a total of SBD300 million this year. Proceeds from the issuance will be used to finance the government investment plans under the development budget during the year.

The projects in the pipeline including all requests for Government guarantee, on-lending and sub-national will tabled to the DMAC for consideration and approval. The overall impact on SIG debt position will depend on disbursements and drawdown; noting that some of these projects will be implemented over a 5-year period or more.

7. The 2025 BUDGET PARAMETERS AND ESTIMATES

I. Fiscal Strategy for the 2025 Budget -Revenue

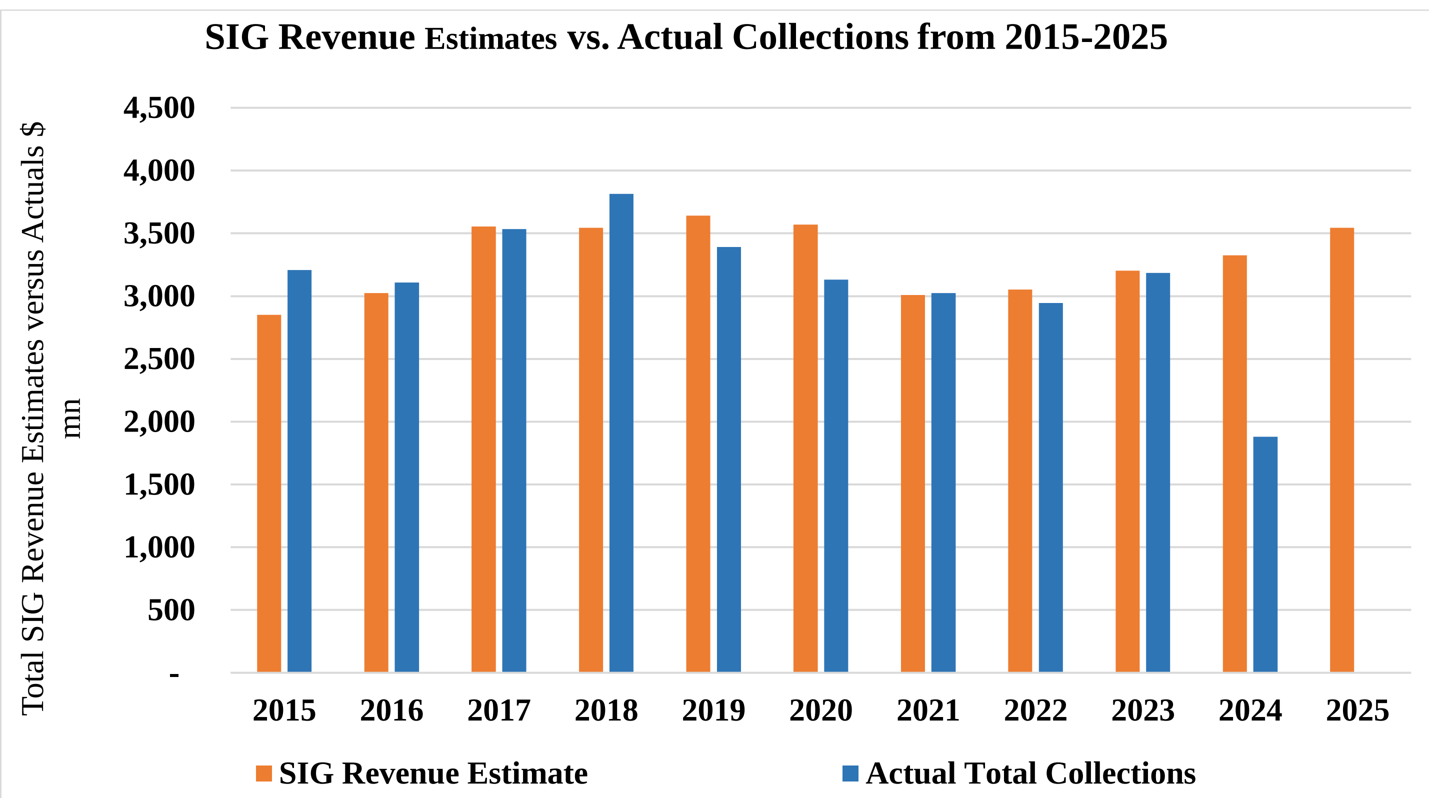
The total SIG revenue estimates for 2025 is $3,554.4 million**.** This is inclusive of both tax and non- tax revenue for 2025, an increase of $69.1 million or 4% from the 2024 revenue estimates. This increase is expected under Inland Revenue Division (IRD) as business activities are gradually picking up due to removal of covid-19 restrictions, thus leads to increased in transactions. Customs and Excise collections however, is above the 2024 original budget due to improved performance specifically from log export duty that recorded deficit in the first half of 2023. Non- tax revenue estimates has been revised up from the 2024 original estimates by 10% based on revenue estimates provided by government ministries collecting non-tax revenue for the Government. There is a great need to strengthen and improve the collection of non-tax revenue as this can help increase SIG revenue collections annually. It is important that the new Government remain within these overall parameters to maintain a stable and managable budget as per the guiding principles of the 2025 Budget.

II. Additonal New Revenue Measures.

Some of the new revenue measures that will be further looked into in 2025, includes;

- Re-introduce Export Duty on Bauxite
- Alcohol Excise Increase
- Re-introduce Export rate of 5 percent on Gold Export
- Propose to increase the export duty rate on Nickel Export.
- Propose to increase license fees on vehicles.
- Vehicle Pollution Tax
- Implement a number of new revenue policy measures for mining, tobacco and alcohol
- Strengthen monitoring of logging operations and revenue collection conducted by various key enforcement agencies

***Figure 2*: SIG Trend in Revenue Estimates to Actual Collections.**



This graph illustrates trend of SIG revenue estimates against actual collections from 2015 to 2025. The revenue estimates for 2025 is expected to increase by 6% above the 2024 original revenue estimates of $3,312.0 million. 2024 actual collections as at July 2024, is $1,880 million, at the time for preparing this strategy document. A revised figure on 2024 actual collection will be provided in the 2024 final budget outcome report. 2018 recorded the highest level of SIG actual revenue collection over the 10 year-period, that went above 2018 revenue estimate of $3.543.0 million by 8 percent. The government is again committed to regain fiscal stability and discipline to rebuild fiscal buffers that has been depleted over the recent years due to global economic and domestic shocks that impacted SIG financial position. SIG actual collections have been on a declining trend from 2020-2022, however gradually picking up as of 2023 and is expected to maintain this positive trend over the medium term.

III. Fiscal Strategy for the 2025 Budget – Expenditure

The 2025 budget will be funded by SIG revenue, including donor support, as well as other financial arrangements made by the government for the required level of resources for priority activities and programs in 2025. The current government's commitment is to ensure that there is no budget deficit in government's overall expenditure, to regain stability on its financial position. Therefore, total expenditure must be within a manageable level to implement its key priorities in 2025.

Government will ensure to provide adequate resources to fund all legitimate and ongoing contracts, fixed costs and essential services for the benefit of citizens and businesses for investment and growth in the economy. To maintain fiscal discipline; expenditure estimates will be spread across all ministries based on the available resources that can be secured in terms of revenue. This is a good opportunity for all ministries to properly plan and cost out their activities and be able to align to key priorities that can be fully or implemented well with their level of capacity in terms of human resources, equipment and available budget needed for implementation

Table 3: 2025 Fiscal Table

Budget Estimates ($ millions)	2024 Original Estimates	2024 Revised Budget Estimates (Jan-June)	2025 Budget Estimates	% change between Original Budget and 2025 Estimates
Total SIG Revenue	**3,312.0**	**3,451.4**	**3,514.5**	6%
IRD	1,979.3	2,158.5	2,192.4	11%
Customs	924.5	995.2	1,026.1	11%
Non-Tax	408.2	297.7	296.0	-27%
Budget Support Revenue	**135.3**	**231.1**	**39.8**	-71%
Sector Budget Support	135.3	231.1	39.8	-71%
Total Revenue	**3,447.3**	**3,682.5**	**3,554.3**	3%
Total Expenditure	**4,403.7**	**4,403.7**	**4,352.0**	-1%
Total SIG Expenditure	**4,268.4**	**4,268.4**	**4,312.2**	1%
Total Recurrent Expenditure	**3,611.7**	**3,611.7**	**3,655.5**	1%
Payroll	1,568.2	1,568.2	1,632.4	4%
Other Charges	2,023.5	2,023.5	2,003.1	-1%
Contingency Warrant Provision	20	20.0	20.0	0%
Development Budget	**656.7**	**656.7**	656.7	0%
Development Expenditure	656.7	656.7	656.7	0%
Donor Development Expenditure	-	-		
Budget Support	**135.3**	**231.1**	**39.8**	-71%
Sector Budget	135.3	231.1	39.8	-71%
Overall Budget Balance	**- 956.4**	**- 721.2**	**-797.7**	**-17%**
Development Financing	**487.0**	**487.0**	**580.0**	19%
Fiscal Balance -consolidated	**- 469.4**	**- 234.2**	**-217.7**	-54%
Fiscal Balance - Recurrent	**- 299.7**	**- 160.3**	**-141.0**	5%

The total expenditure estimate for 2025 is $4,352.0 million. Total SIG expenditure Ceiling will be $4,312.2 million, an increase of 1% from the 2024 original estimates of $4,268.4 million. Total expenditure ceiling for payroll is capped at $1,632.4 million, which is 4% higher than 2024 Original estimates. The payroll baseline is based on existing filled and reserved contractual positions including cost of living adjustment, and contracting of senior government officials.

The total Other Charges ceiling is $2,003.1 million, which is a slight decrease of 1% from 2024 original estimates of $2,023.5 million. The Development Budget will have a total expenditure ceiling of $656.7 million for the 2025 budget which maintain the same level as 2024 Original estimates. The intention to use the same development budget total as 2024 is to ensure that the Government remains within its fiscal capacity and should there be increases, securing external development financing could cater for development priorities.

Development Budget Financing

The government is intending to have an overall planned budget deficit budget of $797.9 million in 2025, of which $580 million will be funded from resources secured by the government through financial assistance from multilateral and bilateral institutions and domestic borrowings. The remaining deficit of $217.9 million will be funded from a number of new revenue measures, expenditure control measures and other external support through ongoing dialogue with development partners to balance the remaining development funding shortfall. This is a significant decrease of 54% from the 2024 original deficit balance of $469.4 million. Refer to Table 3: 2025 Fiscal Table. Equally important to note that total recurrent expenditure exceeds total SIG Revenue of around $141 million. This recurrent deficit is expected to be covered through the revenue measures prioritised for 2025. Otherwise, some planned recurrent expenditures may not be funded or be revised downwards to be well within SIG revenue estimates for 2025.

The Government is committed to manage expenditure priorities within its fiscal capacity, reduce the total balance deficit to attain financial stability, and to manage the huge domestic debt incurred within the past recent years. The government must refrain from borrowing to fund planned budget deficits for recurrent expenditure. It is absolutely critical to incur debt for investments that promote economic activities that generates financial returns that can be used to repay the debt. This is in accordance with section 71 of the Public Financial and Management Act 2013. The section further clarifies that the Minister of Finance may only enter into new borrowing for high priority infrastructure and development initiatives in line with Government's development priorities and must adhere to the national debt policy. The Government will remain committed to its priority to regain stability and its fiscal position and hence will ensure any borrowings must be within sustainable level as stipulated in the national debt policy.

8. OPERATING RULES AND GUIDELINES

This section provides the operational guidelines for line ministries to comply with throughout the preparation of the 2025 annual Budget. It is important that ministries are familiar with these guidelines before preparing submissions relating to payroll, other charges and the Development Budget. The Budget Coordinating Committee (BCC) will be available to provide assistance to line ministries, and hence communication is important to maintain throughout the preparation of the Budget.

Preparation Instructions for Ministry Budget Committees:

Ministries are expected to align budget submissions with the strategic direction and priorities set out in the 2025 Budget Strategy and relevant sectoral and ministry strategies, the Medium-Term Development Plan for development projects, Corporate Plans and annual work plans. The Ministry Budget Committees (MBC) are expected to:

- Provide direction to divisions responsible for preparing budget estimates
- Assure submissions follow the correct format, and are accurate to the respective instructions for other charges, payroll and development budgets

- Establish a time table to hold internal consultations with divisions, similar to that of the Public Accounts Committee (PAC)
- Assure that the sum of allocations across divisions for other charges and development ceilings does not exceed the ministry's threshold.
- Confirm that budget estimates are costed against the correct general ledger accounts
- Ensure that all service grants, fixed costs, utilities, house rentals, and subscriptions to international organizations are included in the baseline for other charges.
- Ensure all on-going Government contractual commitments are accounted for
- Cost any contributions to co-funded activities or bilateral or multilateral agreements. These agreements must also comply with the SIG National Budget Process.

Ministry budget baselines and other documents will be uploaded into D365 system, and available to the Financial Controllers (FCs). In addition, FC's may copy the electronic files and templates onto a flash drive following the budget launch. It is recommended that the MBC use the templates for inputs for both recurrent and development budgets for ease in consolidating the ministry budget before uploading in D365 system.

The following templates will be prepared outside of D365: "Other Charges" template, templates to support new funding requests, payroll and development templates. These documents may be uploaded in D365 along with the Budget plans or submitted to the Budget Unit MOFT, for Other Charges, MNPDC for Development templates and MPS for personal(payroll) budget submissions.

Upon endorsement by the MBC and approval of the PS, the FCs will submit the ministry's budget request, with supporting documentation, through D365.

The table below lists the required documentation ministries are to include in the budget submissions:

Recurrent Budget	**Personnel Budget**	**Development Budget**
• Other Charges Baseline spreadsheet • Procurement plan • FY25 Work Plan • Travel Plan • For new funding requests: ○ New Funding Bid Summary (BUDForm 1) ○ New Policy Funding Proposal (BUDForm 2) ○ Costing template	• Payroll related templates • For new funding requests: ○ New Funding Bid (BUDForm 1) ○ New Policy Funding Proposal (BUDForm 2) ○ Other related documents	• Appraisal of New Proposals for the Medium Term Development Plan 2024-2028 • For proposed new projects, ○ Appraisal of New Proposals (Form2Dev) ○ Financing Agreement ○ Development Cost worksheet ○ Project formulation documents ○ Feasibility studies ○ Risk screening templates

Documents will be scanned separately to associate supporting documentation with the relevant budget request.

I. Recurrent Budget:

A. Payroll Budget

The Ministry of Public Service will embark upon making sure that government payroll links to the Government of National Unity and Transformation (GNUT) policy statement. The GNUT Government believes that our country will continue to face unpresented social and economic shocks that requires making some painful decision in the short term for long term gains. Therefore, attention will be directed to ensuring the public service organisations is in its optimum size, efficient and effective in responding to implementation of GNUT government policies.

i. 2025 Payroll Strategy

The 2025 payroll budget will focus on the resource and productive sector as a strategy to ensure that activities are directed towards attaining sustainable economic growth and transformative development , whilst also having in mind the importance of other sectors. Therefore, Ministry of Public Service have to make some excruciating yet worthy decisions in the short and medium term with the aim to achieve an inclusive long term economic development through adopting a balance governance, strong commitment to political stability, economic development, environmental stability and social equity.

ii. Freezing of unfilled vacancies

Filling up of unfilled vacancies is still a challenge being observed across the Public Service despite the rolling out of the MPS Decentralised Recruitment Process to line Ministries and Agencies. MPS have noted with concern at the rate of unfilled vacancies being idle since 2018. The duration of the unfilled vacancies has reached 75% with only 25% being filled on an annual basis. This proves that Ministries are finding difficulties to recruit against these unfilled vacant positions. The delay of filling these vacancies would be a result of limited qualified personnel in the open market as well as the lack of enabling infrastructure such as office space, accommodations and equipment to work with. In 2022-2023, the number of vacancies have risen largely due to Ministries negligence or no proper Human Resource Planning in place. The high number of payroll pressures in the Social, Fundamental, Productive and Resource Sectors mostly explains this. In our view, the 2024 payroll strategy will focus in addressing these unplanned pressures. As a matter of urgency, to stabilise the payroll, Ministry of Public Service will again freeze all unfilled vacancies and Ministries and Agencies will have to provide evidences that they are ready to fill their frozen unfilled vacancies.

iii. Retirements and Fixed Term Appointments

According to Ministry of Public Service data, 131 Public Officers excluding teachers should have retired in 2023 and another 73 Public Officers will retire in 2024. In terms of fixed term appointments, we have 324 serving Public Officers in the payroll who are beyond the legal minimum retirement age of 55, presumably on fixed term appointments. The Ministry after consulting the Public Service Commission, decided to stop all new fixed term appointments in 2025. Only on exceptional cases, Public Service Commission will approve any new Fixed Term Appointments. This measure is important to strike the balance between recruiting qualified graduates and retaining aging workforce.

iv. Addressing unplanned payroll pressures

Ministry of Public Service is continuously enhancing efficiency of Government Ministries and Agencies to respond to changing needs of our citizens in a cost-effective manner. The costs effective measures being implemented from time to time resulted in various cost cutting initiatives, which at times resulted in staffing implications. The Ministry wish to highlight that the 2025 payroll will address unplanned payroll pressures incurred in 2024. This include all cabinet approved organizational restructuring, terms of conditions including remuneration and Cost of Living Adjustment for all Public Officers.

v. Refocus of workforce to rural areas

While Productive and Resource Sectors are exceptional to the freeze of vacancies, MPS will ensure that there is improvement done to the enabling infrastructures in the Provinces and rural areas before commence to any recruitments or else it will prevent the GNUT Government policy target of workforce to rural areas. Thus, the onus is on Ministries to ensure that there is improvement done to their enabling Infrastructures in the rural areas before recruitment is done.

B. Other Charges Budget

The recurrent budget caters for all general and operational costs to maintain government's ongoing services and operations.

i. Budgeting for Non-Discretionary Obligations

MBC's shall give priority to budgeting for fixed expenses and contractual obligations. These obligations are non-discretionary, in that they are required by law, Cabinet decision, or Parliamentary directive. Therefore, MBC's must guarantee that sufficient funds are allotted to all fixed expenses and contractual obligations for the financial year.

Non-discretionary obligations include all rental, education, health and service delivery grants, mission grants, utilities (e.g, electricity, water, and telephone), subscriptions to international bodies/ organizations and other contracts.

ii. Discretionary

After mandatory obligations are subtracted from the threshold, the MBC's shall review historic expenditures and planned activities for 2025 and allocate the remaining funds to other Government's prioritised areas or discretionary costs. MBC's shall provide sufficient justification on requests to fund consumables, travel, conferences, seminars, entertainment and training to demonstrate that funding those activities support policy priorities and contribute to financial stability and economic growth. There are some key ministries whose mandate or core function depend on budget allocations under discretionary category, such as conferences and Seminars, travel and training. These ministries must allocate sufficient budgets to the relevant budget lines during the budget formulation process and provide sufficient information in support to the associated costs.

Motor Vehicles: New vehicles must be requested through the Ministry of Infrastructure. Supporting documentation (BUD Form 2 and 3) must clearly demonstrate that the acquisition of the vehicles will improve service delivery and generate revenue. Purchase of vehicles is a one-off cost, so ministries that have budget votes for purchase of vehicles in the 2024 other Charges baselines, are removed in the 2025 other Charges baseline.

Travel (both domestic and international): MBCs will submit a travel strategy to justify expected travels in 2025, in terms of improved service delivery and revenue collection. International travel will be limited to government and work-related purposes only. The travel strategy will indicate that international travel is necessary because the intended objective cannot be accomplished domestically. For domestic travel, MBC's are encouraged to minimize the number of travelers to the minimum required to achieve the travel objective.

Training and skills service development: Requests to fund training and skills service development should be accompanied by a training plan with supporting evidence of a skills gap analysis report for the ministry. The requested training must support priority policy objectives, improve performance in service delivery, contribute to strengthened revenue collections or expanded economic opportunities to Solomon Islanders.

II. Development Budget:

The country's development budget over the years funded a number of development programmes and projects captured in the Government's Medium Term Development Plan. In 2024, the approved development estimates of 656.7 million funded a total of 61 development programmes and 347 projects and outputs. The preparation of MTDP as required under Sub-Section 45 of the PFM Act 2013 provides for alignment and smooth implementation of the Solomon Islands National Development Strategy (NDS 2016-2035) and integration of government's priority policies at short to medium and long term. Other sectoral and ministries strategies, laws and regulations can easily incorporate with fifteen (15) Medium Term Strategies of the NDS and the MTDP process and requirement for resource allocation.

Key objectives of the NDS include (1) Sustained and inclusive economic growth, (2) Poverty alleviation, addressing of basic needs and improving food security, (3) Access to quality health and education, (4) Resilient and environmentally sustainable with effective disaster risk management, response and recovery, (5) Unified nation with stable and effective governance and public order.

Achieving vision of the NDS that is "Improving Social and Economic Livelihood of all Solomon Islanders" requires whole of government approach and better coordination across sectors and line ministries. The MTDP 2025-2029 cycle and the 2025 development budget provide an opportunity for better alignment and focus on key investment projects with quality information and clear scope. A manageable strategic approach towards delivery of expected outcomes with possible impacts to improve the economy and service delivery at national, sub-national and community level.

The current fiscal situation calls for meaningful resource mobilisation, public private partnership, strengthening of compliance, honest reporting and need for further improvement in administrative processes. Focussing on key investment projects and activities with smart indicators would help to address emerging developmental gaps and challenges whilst explore opportunities. The need to respond appropriately to increasing demand for efficient and quality service delivery across the country remained an ongoing challenge. This include climate financing and allocation of sufficient resources to support capacity of agencies that implement other cross-cutting agendas. Ensure there is inclusivity, ownership, active participation, peace and national security along the whole process.

Moreover, prioritising reforms that will further improve enabling environment for private sector, investors and other drivers of economic growth remain crucial. Expansion on opportunities for further development of human resources and specialization, capital investments, increase job opportunities and employment, increase production and trade, improve income and revenue collection capacity of public finance and ensure sustainability. Hence, it is timely for ministries to be innovative and utilize available resources to maximize benefits.

Integration of regional and international commitments into the country's NDS, MTS, MTDP and budget requirement is an important planning process that ensure the country manage its resources towards achieving of national development goals than thinly spreading and over committing of limited public finances against competing priorities. The alignment equally important for data collection, monitoring, evaluation and reporting on NDS, SDGs and other SIG commitments.

The 2025 development budget therefore committed to fund development programmes and projects that are ready for implementation. This include projects and activities that are co-funded by the Solomon Islands Government and Development Partners with information captured in the MTDP 2025-2029 version. Hence, consolidation of development estimates for 2025 financial year to capture both domestic finance and non-appropriation component. This off budget supports often funded by development partners with direct implementation through recipient government ministries, agencies and other stakeholders.

To ensure the budget preparation process satisfy regulatory requirement and comply with schedule, ministries and agencies are urged to consider the following guidelines and operational rules when preparing programmes, projects, activities with detail costings for 2025 development budget.

1.1 **Baseline Assumption for 2025 Development Budget**

The 2025 development estimates will build on 2024 costings. This implies ministries to use the 2024 development budget ceiling for guide and should there be need for new project proposal, ministries to review existing projects and activities and free-up space for additional projects. Thus, 2025 revenue projection and indicated development envelope for 2025 determines the fiscal space for maneuver or further adjustment to 2024 ministry budget ceilings.

1.2 **Guidelines for Output prioritisation**

As part of ongoing implementation of the development budget Ministries are asked to reduce number of outputs with in a program which can be realistically implemented with the budget allocated annually. Phasing of program output will help implementation across a multi – year period given the scarce resources and capacity. Ministries can phase out their implementation of projects under each program in the MTDP which is reviewed annually.

1.3 Guidelines for New Development Project Proposal

Only project proposals received through MTDP 2025-2029 process will be further review before recommendation for funding allocation under 2025 development budget. Ministries to note that inclusion of any additional projects and activities after the MTDP consolidation phase without proper documentation and justification will not be

considered as it undermines the MTDP and budget credibility process. Policy alignment, project readiness, availability of funding and capacity of implementation are some of the important factors for possible consideration before recommendation of any new project proposal.
Limiting the number of projects and prioritize viable projects only for funding under SIG annual fiscal cycle should be an option for Ministry Budget Committee (MBC) of each ministry to consider and collaborate with the Ministry of National Planning and Development Coordination for possible actions.

1.4 **Guidelines for Programmes and Projects with Existing Contracts**

Ministries must prioritised projects with existing contracts first before allocating resources for any new proposal or ongoing projects. This is to ensure SIG contractual commitments are well captured and cleared on time with minimal variations. As part of requirement, ministries to submit along with MTDP project proposals any copy of Central Tender Board or Ministry Tender Board awards and financing agreements for informed decision.

1.5 **Guidelines for Programmes and Projects Recurrent in Nature**

Programmes and projects that are recurrent in nature must be factored under ministry's recurrent budget. It is important to note that development budget should be prioritized for delivery of capital projects and other social services investment projects only. During the budget appraisal phase, costings will be reviewed thoroughly against activity and COA level before recommendation. However, one-off recurrent costs that are critical for successful completion of a project is accepted. Once a definition for development and recurrent costs is finalised, it will provide more details.

1.6 **Guidelines for Ongoing Development Project Implementation Status**

It is equally important for ministries to submit implementation progressive report for existing and ongoing projects and activities funded under the 2024 approved budget. This is to ensure projects and activities that will roll-over to 2025 are justifiable and not to duplicate SIG scarce resources. Not only that, it is crucial to ensure funding space is available for other pipeline investment projects that are ready for implementation. Ongoing programmes and projects received without biannual reports will not be considered for 2025 development budget. Going forward and as required by the PFM Act 2013, reporting is an area that needs urgent attention and further improvement. To support the work that is currently undertaken by the Ministry of National Planning and Development Coordination with help from government ministries, agencies and other stakeholders on the Solomon Islands Monitoring and Evaluation Systems Strengthening Strategy, the MNPDC calls for collaboration to improve on gaps and challenges faced concerning reporting.

1.7 **Guidelines for Non-Appropriate Funding Component**

The 2025 development budget seek to show a more credible data on the non-appropriated donor funding. Development Partners were consulted to provide data and received cooperative response and this was cross checked with relevant SIG line ministries and agencies. However, there are challenges such as timing, specific data needs of stakeholders and project management reporting that require more collaboration to improve credibility of data. Going forward, it is the goal to make compulsory reporting for all non-appropriated funding which will provide a complete picture of the on budget and off budget components. This is important and has to be improved in order to provide a complete report on both SIG and donor support in implementing the NDS 2016-2035 and government priority policies.

9. DONOR CONTRIBUTIONS

Contributions from development partners continue to assist the government in maintaining the delivery of essential services and infrastructure developments and programs in the country. The government will continue to maintain its existing relationship and strong commitment with the donors into the next financial year. Below is a summary of budget support from donor partners that will be channelled through ministries as Budget support for 2025 financial year.

Head	Ministry	Development Partner	Description of Program/Project	2025 Budget Estimates
06	Ministry of Finance and Treasury	New Zealand	Supporting Economic and Financial Reform	17,940,202.00
09	Ministry of Health & Medical Services	UNFPA	Transformative Agenda (DFAT Funded)	TBC
09	Ministry of Health & Medical Services	WHO	Country Capacity in data and innovation	13,890,297.74
20	Ministry of Culture & Tourism	New Zealand	Tourism Recovery Programme	1,222,142.00
23	Ministry of Fisheries & Marines Resources	New Zealand	Solomon Islands Fisheries Development - New phase 2020-2024	120,521.00
28	Ministry of Mines, Energy & Rural Electrification (Solomon Power)	New Zealand	Solomon Islands Renewable Energy Scoping Study	5,421,453.00
30	Ministry of Women, Youth, Children & Family Affairs	UNWomen	Pacific Partnership to End Violence Against Women and Girls	1,183,605.00
TOTAL				**39,778,202.74**

10.CONCLUSION

This document provides the framework for preparing the 2025 Budget in accordance with section 45 (1) (a) (b) of the Public Financial Management Act 2013. Given the overall macro-fiscal estimates and parameters the Government used to develop the 2025 Budget, it is of paramount importance that all ministries adhere to the guiding principles and operating rules laid out in this document when preparing their 2025 Budget submissions. All ministries are to ensure that all service grants, fixed costs, subscriptions to international organisations, and most importantly Government's ongoing contractual comitments both in the recurrent and development budgets must be adequately funded and given priority in the 2025 Budget. Any contributions to co-funded activities or bilaterial and multilateral agreements must be properly costed and in compliance to the SIG National Budget Process and procurement guidelines. These ongoing or contractual commitments will be prioritised and ministries responsible for the respective key priorities need to actively collaborate through the Mnistry Budget Committees(MBCs) they established, to ensure they are adequately funded. These priority commitments if not properly budgeted for will continue to accumulate substantial arrears to the next financial year just because of poor internal coordination and prioritisation. It is therefore important that Government is committed to funding all its ongoing contractual obligations, essential services and fixed costs, as we progress under the Government of National Unity and Transformation in 2025.

Attachment A: The 2025 Budget Timetable

Major milestones	Activities	Deliverables	Deadline
Review and update economic and fiscal parameters	Review of the economic and fiscal parameters that will frame the fiscal framework of the 2025 Budget.	GDP forecast and revenue estimates update	June-July 2024.
Compiling and finalizing of the 2025 budget Strategy and Operational Rules	BSC agree on the fiscal parameters and expenditure envelope for budget components. BCC prepares inputs for the 2025 budget strategy Update fiscal table and prepare ministry budgets	2025 Budget Strategy. 2025 Fiscal table	26th - 30th August 2024. 21st – 23rd August
Caucus and Cabinet approval of the 2025 budget Strategy	Deliberate and Approval of the 2025 draft budget Strategy	Caucus and Cabinet papers 2025 Budget Strategy	5th August 2024
2025 Budget Launch	BCC present to ministries and Donor partners on the 2025 Budget Strategy and operational rules	Presentations, baselines budget templates and development budget templates	6th Sept. 2024
Post Budget Consultation	Provide feedback to ministries on the final budget estimates. Ministries review budget estimates	Draft ministry budget ceilings and ministry allocations	9th to 20th Sept 2024
Prepare Budget Submissions	Ministry Budget Committees (MBCs) to plan and prepare budget submissions.	Ministry Budget submissions Annual work plans and procurement plans	23rd Sept to 10th Oct 2024
Budget Submission Due	Ministry submit baselines and developmental proposals to MNPDC MoFT and MPS	Ministry draft 2024 recurrent and development budget	11th Oct 2024

Collate and compile Budget Submissions	Review and assess ministry submissions – recurrent and development budget	Compiled draft recurrent and development budget	14th Oct to 1st Nov 2024
Budget Cabinet	Cabinet approvals of the 2025 draft budget- 2025 Appropriation Bill	Cabinet paper Revised draft 2025 Budget estimates 2025 Appropriation bill 2025	4th – 8th Nov 2024
Feedback to ministries and Budget documents delivered to Parliament	Budget documents printed and delivered to parliament	2025 Appropriation Bill 2024 2025 Budget documents	21st to 25th October 2024
PAC Hearing	Ministries present to PAC Complete PAC generic template by ministries	Ministries' talking points Ministry budget information	11th to 29th Nov 2024
Parliament sitting	Brief Ministers on ministry budget Prepare second reading winding up speech	Second reading speech Winding up speech	2nd – 13th Dec 2024
Royal Assent	2025 Appropriation Bill	Gazette and royal assent	13th December 2024
Budget Upload and release of warrant	Prepare upload files Accounting warrants	2025 budget in operation Issue of Accounting Warrants	1st January 2025